

Message Text

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ACTION EA-14

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NOFORN

E.O. 11652: GDS

TAGS: MASS, KS

SUBJECT: FY 75-80 SECURITY ASSISTANCE PLANS

REFS: (A) STATE 31505;

(B) EMBASSY A-73, 26 MARCH 74 (PARA);

(C) SEOUL 3053;

(D) SEOUL 3015;

(E) SEOUL 3134;

(F) SEOUL 3335

1. PARA I B OF REF A REQUESTS MY OVERALL ASSESSMENT OF THE NEED FOR, EFFECTIVENESS OF, AND INTER-RELATION BETWEEN THE VARIOUS ELEMENTS OF U.S. SECURITY ASSISTANCE PLANNED FOR KOREA FOR FY 75-80. IT ALSO REQUESTS AN EVALUATION OF THE IMPACT OF OTHER FORMS OF FOREIGN ASSISTANCE.

2. THE QUESTIONS REGARDING U.S. SECURITY ASSISTANCE PROGRAMS HAVE BEEN ADDRESSED IN DETAIL IN THE EMBASSY'S PARA SUBMISSION (REF B) AND MORE POINTEDLY IN A RECENT SERIES OF MESSAGES ON THIS
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SPECIFIC SUBJECT (REFS C THROUGH F). THIS MESSAGE THEREFORE

SUMMARIZES AND UNDERLINES OUR BASIC CONCLUSIONS.

3. GIVEN THE STRATEGIC INTERESTS OF THE U.S. AND THE MILITARY THREAT FROM NORTH KOREA, FURTHER MODERNIZATION OF ROK FORCES IS REQUIRED AND SPECIFIC OBJECTIVES OF MOD PLAN AND OUR COMMITMENT TO ITS FULFILLMENT REMAIN VALID. AS THE EMBASSY HAS REPORTED ON NUMEROUS OCCASIONS HOWEVER, ECONOMIC JUSTIFICATION FOR LEVEL AND MIX OF PAST U.S. SECURITY ASSISTANCE HAS DIMINISHED WITH RAPID GROWTH OF THE ROK ECONOMY. WITH THE HELP OF INCREASED LEVELS OF FMS CREDIT AND ASSUMING REASONABLE GRANT AID LEVELS ARE REALIZED IN FY 75 AND FY 76, THE ROK SHOULD EASILY BE ABLE TO TAKE OVER FUNDING OF ITS OWN DEFENSE NEEDS BY 1977, WITHOUT UNDUE NEGATIVE IMPACT ON ITS ECONOMIC GROWTH OR DEBT SERVICING BURDEN. IT APPEARS MOREOVER, THAT KOREANS HAVE ALREADY MADE PSYCHOLOGICAL ADJUSTMENT TO ASSUMING A LARGER SHARE OF THE MODERNIZATION PROGRAM. MAJOR CONGRESSIONAL CUTS OF PAST FEW YEARS HAVE NOT BEEN LOST ON THEM, AND RECENTLY THEY HAVE MADE SEVERAL OFFERS TO BUY ITEMS WITH FMS CASH OR CREDIT THAT THEY PREVIOUSLY EXPECTED TO OBTAIN UNDER GRANT MAP (SEE REF C). TOP LEVEL MND OFFICIALS HAVE TOLD US IN NO UNCERTAIN TERMS THAT THE ROKG IS READY TO ASSUME MORE OF THE BURDEN AND IS IN FACT ANXIOUS TO GET ON WITH A NEW APPROACH (REF F). PRESIDENT PARK HAS HIMSELF MADE CLEAR ON A NUMBER OF OCCASIONS, HIS DESIRE TO FULFILL MODERNIZATION OBJECTIVES, THROUGH USE OF FMS CREDITS OR CASH IF GRANTS FALL SHORT. WHAT HE IS MOST ANXIOUS TO HAVE IS SOME CLEARER IDEA OF WHAT TO BE ABLE TO COUNT ON IN THESE CATEGORIES SO AS TO ADJUST HIS OWN BUDGET ACCORDINGLY. HE MADE THIS POINT AGAIN IN A CONVERSATION WITH ME AND GENERAL STILWELL JUST A FEW DAYS AGO.

4. IN VIEW OF THESE DEVELOPMENTS, OUR PLANS FOR GRANT ASSISTANCE AND FMS LEVELS REQUIRE RE-EXAMINATION TO REFLECT REALITIES OF INCREASED ROK CAPABILITIES AND DIMINISHING U.S. AND AND RESOURCES, IF WE ARE TO MEET OUR MODERNIZATION PLAN OBJECTIVES AND IF PLANS ARE TO REMAIN RELEVANT AND USEFUL. THE ACTUAL LEVELS OF GRANT MAP AND FMS ARE QUESTIONS WHICH WASHINGTON AGENCIES SHOULD ADDRESS, AND I UNDERSTAND THIS IS BEING DONE. FOLLOWING ARE SOME GENERAL CONSIDERATIONS WHICH SHOULD BE TAKEN INTO ACCOUNT.

A) THERE ARE SEVERAL MAJOR ITEMS IN THE MOD PLAN, PRINCIPALLY F-5E AIRCRAFT AND AIR DEFENSE EQUIPMENT, WHICH ARE CRITICAL TO ROK NEEDS, WHICH ARE CLEARLY IN OUR INTEREST TO SUPPLY, AND WHICH

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KOREANS EXPECT US TO PROVIDE UNDER GRANT MAP.

B) WE BELIEVE THAT A SUBSTANTIALLY REDUCED PROGRAM OF GRANT MAP WHICH INCLUDED THESE ITEMS WITH A CUTOFF DATE OF FY 1977 WOULD PROVE ACCEPTABLE TO THE KOREANS, PARTICULARLY IF THE FMS INCREASES RECOMMENDED BELOW ARE ALSO ADOPTED. WE BELIEVE WE SHOULD BE PREPARED TO INFORM THE KOREANS OF NATURE OUR PLANNING AT SCM THIS SEPTEMBER. IN THIS PROCESS, WE SHOULD MAKE CLEAR TO THEM THAT THERE WILL BE NO O AND M FUNDS AFTER FY 1974 EXCEPT THOSE NEEDED

TO FULFILL ESTABLISHED U.S. OBLIGATIONS.

C) AN IMPORTANT ADJUNCT TO A DOWNWARD READJUSTMENT OF GRANT MAP WOULD BE AN INCREASE IN FMS CREDIT OVER CURRENT POM PROJECTED LEVELS. THE INCREASE AVERAGING OVER \$180 MILLION PER YEAR FOR THE NEXT THREE YEARS REQUESTED BY THE KOREANS IN THE FMS CREDIT POM THEY HAVE GIVEN US (PARA 3E, REF C). MAY NOT BE FEASIBLE. NEVERTHELESS, A SUBSTANTIAL INCREASE IS JUSTIFIABLE GIVEN THEIR OVERALL SECURITY NEEDS AND FAVORABLE ECONOMIC PROSPECTS. IT WOULD MOREOVER: HELP THE KOREANS PSYCHOLOGICALLY TO ADJUST TO THE MORE RAPID THAN EXPECTED TRANSFER OF DEFENSE COSTS; PROVIDE ADDED INSURANCE AGAINST GAPS IN ROK SECURITY DURING THE TRANSITION; ENHANCE U.S. INFLUENCE IN THE ROK MILITARY DECISION MAKING PROCESS, WHICH IS ALREADY BECOMING NOTICEABLY MORE INDEPENDENT; AND, AS THE ROK MOVES TOWARD COMMERCIAL CREDIT PROCUREMENT, WORK TO ASSURE THAT U.S. EQUIPMENT AND MATERIEL RETAIN A MOST-FAVORED POSITION.

5. THE SECOND QUESTION POSED IN REF A REQUESTS AN EVALUATION OF THE IMPACT OF OTHER ECONOMIC AND MILITARY ASSISTANCE ON KOREAN SECURITY AND OUR SECURITY ASSISTANCE PROGRAM.

6. THE ROKG HAS ESTIMATED A TOTAL NEED FOR ROUGHLY \$1.5 BILLION OF NON-MILITARY FOREIGN FINANCING PER YEAR UNTIL 1981 IN ORDER TO MEET ITS GROWTH TARGETS. OF THIS TOTAL THEY FORSEE OBTAINING APPROXIMATELY \$700 MILLION PER YEAR IN COMMERCIAL LOANS; \$300 MILLION IN DIRECT INVESTMENT, AND \$500 MILLION IN OFFICIAL LOANS. THE LATTER FIGURE TENTATIVELY BREAKS DOWN INTO \$300 MILLION ANNUALLY FROM INTERNATIONAL FINANCIAL INSTITUTIONS, \$100 MILLION FROM JAPAN, AND \$100 MILLION FROM THE U.S. AND OTHER SOURCES. THESE OFFICIAL LOAN FIGURES ARE FOR ECONOMIC PURPOSES ONLY. U.S. MILITARY ASSISTANCE IS ADDITIONAL TO THE ABOVE, AND THERE IS NO THIRD COUNTRY MILITARY ASSISTANCE.

7. THE \$500 MILLION OF OFFICIAL ECONOMIC ASSISTANCE AND THE U.S.
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SECURITY ASSISTANCE PROGRAM ARE NOT DIRECTLY RELATED BUT BOTH CONTRIBUTE TO ACHIEVING OVERALL ECONOMIC AND SECURITY GOALS. AS INDICATED ABOVE, PHASING OUT GRANT MAP BY FY 1977, IF COUPLED WITH A SUBSTANTIAL INCREASE IN FMS CREDIT, WILL HAVE NO EFFECT ON ROK ABILITY TO ACHIEVE ITS TARGETS. ON THE OTHER HAND, A MAJOR, PRECIPITOUS SHORTFALL IN EXPECTED OFFICIAL FOREIGN FINANCING WOULD HAVE AN EFFECT ON ROK CAPABILITIES AND PRIORITIES AND COULD RESULT IN DIVERSEION OF ROKG FUNDS FROM SECURITY NEEDS. THEORETICALLY, THIS IN TURN COULD IMPACT ON THE U.S. SECURITY ASSISTANCE REQUIREMENT. BARRING SOME MAJOR CATASTROPHE HOWEVER, WE DO NOT ANTICIPATE ANY SUCH DRAMATIC SHORTFALL. TO THE CONTRARY, AS AMPLIFIED IN EMBASSY ECONOMIC REPORTING, WE EXPECT THE KOREANS TO FULFILL BOTH THEIR OFFICIAL AND COMMERCIAL EXTERNAL FINANCING REQUIREMENTS IN COMING YEARS. WE THEREFORE WOULD NOT ANTICIPATE ANY MAJOR IMPACT BY THESE PROGRAMS ON ROK SECURITY OR SECURITY ASSISTANCE PLANS,

NOR ON THE REQUIREMENT I HAVE OUTLINED FOR U.S. SECURITY
ASSISTANCE.

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